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STATE FOR NEA/ELA, NEA/RA AND EEB
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SUBJECT: PROSECUTOR GENERAL PRESSES CHARGES AGAINST CEMENT
MANUFACTURERS

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¶1. (U) The trial of 12 cement companies accused of collusion under Egypt's 2005 Competition Law begins this week, amidst calls for prosecution of steel manufacturers under the same law. As reported in reftel, in October 2007 the Egyptian Competition Authority (ECA) announced that its 14-month investigation of the cement industry found evidence of collusion among cement companies to control supply and fix prices from May 2005 to December 2006. Based on ECA's findings, the Minister of Trade and Industry referred the companies to the Prosecutor General, who decided in January to prosecute the case, the first under the Competition Law. The companies could be fined up to LE 10 million (\$1.8 million) each if found guilty. The ECA is still investigating the steel industry for evidence of collusion.

¶2. (SBU) Eric Holard, Managing Director of Sinai Cement, one of the companies named in the case, told us that collusion to fix prices makes sense only when demand is low. The period for which the companies are accused of colluding coincided with the start of Egypt's construction boom, when demand increased significantly. Holard believes the case is really intended to demonstrate government action to control consumer prices. Cement prices affect Egyptian consumers directly because of the prevalence of "do-it-yourself" home construction, especially in poor areas. In developed markets, producers sell cement by the ton, mostly to construction companies, and deliver it in large mixing trucks. In Egypt, producers sell cement by the bag to traders licensed by the Ministry of Trade and Industry. The traders re-sell the bags, often at a significant mark up, to construction companies and individuals building their own houses. So traders, not producers, determine the consumer price of cement, according to Holard.

¶3. (SBU) Holard warned that the court case would send a negative signal to potential investors in the cement sector, and would have no effect at all on prices. In fact, the real cause of rising prices is lack of capacity in the cement industry. Producers can not keep up with the demands of the construction boom. The GOE's recent issuance of 6 licenses for new cement factories should ease the problem, but not until the factories come online, which could take 2-3 years. In the meantime, prices will continue to rise as the construction sector flourishes with abundant foreign investment.

¶4. (SBU) Comment: Although the cement case is not likely to lower prices, it will provide a bellwether of how the legal system will deal with commercial cases, as increased foreign investment is likely to result in more commercial cases. If the government's aim

in bringing the case is to control prices, a much more effective way would be to eliminate licensed traders as middlepersons in the distribution chain, or at a minimum allow greater competition among traders. Simplifying the supply chain would not only eliminate the mark up taken by traders but would put to rest claims, particularly in the local press, that suppliers withhold supplies in anticipation of price increases.

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